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# **China, Peoples Republic of**

## **Product Brief**

### **Breakfast Cereal Market**

### **2002**

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#### **Report Highlights:**

**Breakfast cereal is a product in which some local importers have recently started to show greater interest. Although the current market in China is small, the potential for increased exports in the future exists.**

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Includes PSD changes: No  
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Breakfast cereal is a product in which some local importers have recently started to show greater interest. Although the current market in China for breakfast cereal in general and imported varieties in particular is small, the potential for increased exports in the future exists.

### Buyers and Supply

At the present time, the main buyers of breakfast cereal are hotels, particularly those that cater to a large number of overseas visitors. In nearly every one of these hotels, buffet breakfasts are offered and breakfast cereal is often part of the buffet. Some supermarkets and hypermarkets also sell breakfast cereal to local consumers, but amounts and varieties tend to be limited and locally produced. When hotels and retailers purchase imported breakfast cereal, they usually buy the product from local importers and distributors, and rarely import themselves.

Overseas breakfast cereal joint ventures currently operate in China and produce most of the domestically manufactured cereals. Kellogg has a plant in Guangzhou, producing corn flakes and other varieties of breakfast cereals. Heinz, also with a manufacturing plant in Guangzhou, produces a breakfast cereal product which is advertised as a baby food. Heinz has been manufacturing this product line in China for over ten years.

Most of the imported breakfast cereal available in Guangzhou, for example, is manufactured by Kellogg factories, but not just American ones. A general survey of imported Kellogg products in the Guangzhou market reveals that they could come from Australia, Malaysia, Thailand, or elsewhere. As of February 2002, at the Guangzhou Yide Road food wholesale market, approximately 200 gram boxes of imported breakfast cereal were for sale at an average price of 25 Yuan (U.S.\$ 3.03) per box. However, the prices only were for bulk orders.

### Consumers and Considerations

For local consumers, taste is the most important product characteristic. Traders say that local breakfast cereal consumers in general prefer a sweet taste. One trader in particular claims that the local populace's tastes tend towards the extremes. He says that any breakfast cereal for local consumption should be either very sweet or have no taste whatsoever. In regards to the latter taste preference, he adds that a no taste cereal gives a consumer the opportunity to add fruit or other items in order to allow the individual consumer create a preferred taste before consumption.

Price and education are cited as the two biggest current constraints on retail sales. In regards to price, one trader who imports breakfast cereal feels that the currently available product in the retail market is too expensive for most consumers. He added that, if one could bring down the price by 20 to 30 percent, demand would expand tremendously. As for education, traders say that most of the local population does not know about and understand how to consume breakfast cereals. They acknowledge that consumer education must be a major part of any marketing campaign for the product. Although existing overseas breakfast cereal joint ventures in China have made some headway in regards to education, the traders say more is necessary before sales

can expand. In the early 1990s, Heinz conducted various seminars throughout China, promoting the health benefits of their own cereal product for growing infants.

In China, breakfast cereal is not only for breakfast. It also has been consumed as a snack, eaten straight from the box. Becoming a snack food in China has been good for the product. Although Chinese still prefer their own cuisine for the traditional meals of breakfast, lunch, and supper, they are willing to try other products for any snacking in between regular meals. Some of the most successful U.S. high-value consumer product exports to China over the last decade penetrated the market as snack foods, i.e. almonds, pistachios, fresh fruit, and others. Much of the local population still prefers eating a traditional Chinese breakfast which usually does not include breakfast cereal. For example, a Guangzhou supermarket executive claimed that in Guangzhou over 90 percent of the population still eats a traditional breakfast every morning.

### Trade Regulations

Since breakfast cereal falls under HS Code 1904, China's import tariff rates for these products range from 25 to 30 percent. In addition, since the cereals are processed products, an additional 17 percent in Value Added Taxes are added. The import tariff rate for breakfast cereal from non-World Trade Organization (WTO) member countries exported into China is much higher, 80 percent, but the Value Added Tax remains the same. Since China has recently joined the WTO, import tariffs are expected to decline over the next several years.

China Tariff Rates: HS1904 Prepared foods obtained by the swelling or roasting of cereals or cereal products (for example, corn flakes); cereals (other than maize (corn)) in grain form or in the form of flakes or other worked grains (except flour, groats and meal), precooked or otherwise prepared, not elsewhere specified or included					
HS Code	Description	Prefer. Tariff Rate	Ordinary Tariff Rate	V.A.T. Rate	Effect. Tariff Rate
1904.1000	Prepared foods obtained by swelling or roasting of cereals or cereal products	25	80	17	46
1904.2000	Prepared foods obtained from unroasted cereal flakes or from mixtures of unroasted cereal flakes and roasted cereal flakes or swelled cereals	30	80	17	52
1904.3000	Bulgar Wheat	30	80	17	52
1904.9000	Other	30	80	17	52
Source: Customs Import and Export Tariff of the People's Republic of China, 2002					

The current exchange rate between the U.S. Dollar and the Chinese Yuan is 8.26 Yuan per Dollar.

